

AMERICANS FOR PROSPERITY

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Ex parte via ECFS and email

The Honorable Kevin J. Martin, Chairman
The Honorable Michael J. Copps, Commissioner
The Honorable Jonathan S. Adelstein, Commissioner
The Honorable Deborah Taylor Tate, Commissioner
The Honorable Robert M. McDowell, Commissioner
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

Re: Skyrocketing High-Cost Universal Service Support (WC Docket No. 05-337)

Dear Chairman and Commissioners:

Americans for Prosperity is a national grassroots organization dedicated to educating and mobilizing ordinary American taxpayers to engage in the policy making process from the perspective of free markets, fiscal responsibility, transparency, and accountability. We are concerned about the skyrocketing burden of rising Universal Service Fund (“Fund”) spending; especially the high-cost portion of the Fund. Outlays from that portion of the fund are out of control and it is time to impose some fiscal discipline by putting a cap on these expenditures.

Over the last 11 years, the Fund has mushroomed from \$1.8 billion to \$7.2 billion – a 300 percent increase. The costs of the Fund are typically passed along to consumers—everyone with a telephone. Since just the first quarter of 2007 the fee charged to consumers has leapt by more than 20 percent, from 9.7 percent to 11.7 percent. This is a runaway de facto tax hike that is unsustainable, unintended, and should be stopped.

The biggest driver of the problem is the high-cost portion of the Fund. In the five-year period from 2001 to 2006, expenditures rocketed up by over 5,000 percent – from \$15 million to just short of \$1 billion.

On May 14, 2007, the Federal-State Joint Board on Universal Service sensibly recommended a cap on the high-cost portion of the Fund. The portions of the Fund reserved for low-income and rural health-care support are already capped. Outlays from the high-cost portion are going mainly into the pockets of wireless carriers, a sector that is intensely competitive in most places without subsidization.

Innovation and competition have made telephone service available to most consumers through a dizzying array of competing wireless and wired technologies. This competition has been driving down prices throughout the U.S., with the perverse consequence that Universal Service now appears to be making telephone service more expensive, not less, for many customers. Fundamental reforms to dramatically pare back the mission of the program would therefore be prudent. In the near term, capping skyrocketing high-cost expenditures would be a sensible move to protect consumers and allow markets to function more effectively.

Sincerely,



Phil Kerpen
Director of Policy

